

Message Text

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AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: EFIN, OECD

SUBJECT: SECRETARIAT REQUEST FOR EPC-WP-3 PROJECTIONS

RELATED TO BALANCE OF PAYMENTS AIMS

REF.: OECE 6928

1. MISSION REQUESTED TO PROVIDE MARRIS WITH FOLLOWING
LETTER FROM TREASURY UNDER SECRETARY BENNETT.

2. BEGIN TEXT

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DEAR STEVE:

YOUR LETTER OF MARCH 13 REQUESTED SPECIFIC INFORMATION
AND GENERAL COMMENTS TO ASSIST IN PREPARING THE PAPER ON

MEDIUM-TERM BALANCE OF PAYMENTS OBJECTIVES AND POLICIES FOR THEIR ACHIEVEMENT. THIS REQUEST WAS AN OUTGROWTH OF SIR DEREK MITCHELL'S LETTER ADVOCATING THAT THE WORKING PARTY DEVELOP SOME CRITERIA FOR EVALUATING THE APPROPRIATENESS OF MEMBERS' ECONOMIC POLICIES.

3. SINCE YOU HAVE ASKED FOR SPECIFIC ESTIMATES OF U.S. NET OIL IMPORTS, THE VOLUME OF U.S. EXPORTS TO OPEC, THE EXTENT OF U.S. DEPENDENCE ON OIL AND PROJECTIONS FOR 'NON-OIL' MEDIUM-TERM DEVELOPMENTS, I PRESUME YOU ARE PLANNING TO USE THE APPROACH IN THE SECRETARIAT NOTE OF NOV. 8 ON 'OIL DEFICITS AND THE ADJUSTMENT PROCESS' (CPE/WP-3 (74)20) IN RESPONDING TO THE CHAIRMAN'S REQUEST. WE WOULD BE HAPPY TO COOPERATE WITH YOUR REQUEST IF WE WERE SATISFIED WITH THE AVAILABLE DATA, EVEN THOUGH WE HAVE RESERVATIONS ABOUT THE VALIDITY OF THIS PARTICULAR APPROACH. THE ESTIMATES OF U.S. ENERGY BALANCES, INCLUDING NET OIL IMPORTS, WHICH WERE USED IN THE OECD PUBLICATION 'ENERGY PROSPECTS FOR 1985' AND ON WHICH YOU DREW FOR CPE/WP-3(75)1, ARE BEING SIGNIFICANTLY REVISED. NEW ESTIMATES, ALONG WITH REVISED PROJECTIONS OF U.S. OIL DEPENDENCE, SHOULD EMERGE FROM THE EFFORT OF THE IEA'S STANDING GROUP ON LONG-TERM COOPERATION TO UPDATE PROJECTIONS FOR ALL IEA COUNTRIES. EVEN THEN THE UNCERTAINTIES SURROUNDING U.S. ENERGY POLICIES MAY NECESSITATE A WIDE RANGE OF ALTERNATIVE PROJECTIONS.

4. WE HAVE NO ESTIMATES OF U.S. EXPORTS TO OPEC EXTENDING TO 1980 AND 1985. WE DO PLAN TO EXPAND AND REFINES THE STUDIES OF BALANCE OF PAYMENTS POSITIONS OF THE OPEC COUNTRIES OVER THE NEXT DECADE WHICH WERE SUPPLIED TO THE SECRETARIAT IN FEBRUARY - PORTIONS OF WHICH WERE INCORPORATED IN CPE/WP-3 (75)1. THIS STUDY WILL FOCUS ON THE GLOBAL OPEC CURRENT ACCOUNT SURPLUS, YEAR BY YEAR, AS WELL AS CUMULATIVE THROUGH 1985, WITH SOME ILLUSTRATIVE DETAIL ON OPEC COUNTRIES. WHEN IT IS COMPLETE, LIMITED OFFICIAL USE
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WE WILL BE HAPPY TO MAKE IT AVAILABLE TO YOU.

5. WE PERCEIVE A VERY REAL DIFFICULTY IN DRAWING A CLEAR CUT DISTINCTION BETWEEN 'OIL' AND 'NON-OIL' MEDIUM-TERM DEVELOPMENTS, AND WE WOULD CONSEQUENTLY QUESTION THE USEFULNESS OF ANY PROJECTIONS WE MIGHT MAKE ABOUT MEDIUM-TERM 'NON-OIL' DEVELOPMENTS. THE U.S. CURRENT ACCOUNT POSITION -- INCLUDING OIL -- PROBABLY WILL BE IN DEFICIT AT LEAST FOR ANOTHER COUPLE OF YEARS. THE SIZE OF THE DEFICIT COULD VARY SUBSTANTIALLY, HOWEVER, DEPENDING ON CYCLICAL DEVELOPMENTS HERE AND ABROAD, PRICES OF AGRICULTURAL PRODUCTS, WHETHER CROPS IN OTHER COUNTRIES ARE FAVORABLE OR UNFAVORABLE, AND WHAT HAPPENS TO THE INVEST-

MENT EARNINGS OF U.S. PETROLEUM COMPANIES ABROAD. THESE OBSERVATIONS, HOWEVER, ARE SIMPLY AN ESTIMATE OF PROBABLE DEVELOPMENTS; THEY DONOT REFLECT AND ARE NOT MEANT TO CONVEY ANY PARTICULAR POLICY OBJECTIVE.

6. I AM SURE YOU ARE AWARE OF THE BROAD LINES OF CURRENT U.S. THINKING WITH RESPECT TO THE GENERAL QUESTION OF BALANCE OF PAYMENTS OBJECTIVES. WE SEE THE PRIMARY NEED AS A PATTERN OF CURRENT ACCOUNT BALANCES WHICH IS CAPABLE OF BEING FINANCED BY AN ACCEPTABLE PATTERN OF CAPITAL FLOWS. THIS GENERAL PRINCIPLE IS AS RELEVANT TO THE PATTERN OF CURRENT ACCOUNT POSITIONS POST OIL-PRICE INCREASE AS IT WAS BEFORE. A GENERAL CRITERION OF THIS NATURE IS, HOWEVER, EXTREMELY DIFFICULT TO TRANSLATE INTO SPECIFIC CURRENT ACCOUNT TARGETS TOWARD WHICH GOVERNMENTS COULD TAILOR THEIR POLICIES.

7. IN LINE WITH THIS VIEW, WE HAVE CHOSEN NOT TO ESTABLISH ANY OBJECTIVES FOR THE STRUCTURE OF THE U.S. BALANCE OF PAYMENTS. WE BELIEVE THAT U.S. RESPONSIBILITIES TOWARD OUR OWN CITIZENS, AND TOWARD THE REST OF THE WORLD AS WELL, ARE BEST SERVED BY DIRECTING OUR ATTENTION TO THE IMPLEMENTATION OF POLICIES WHICH WILL RESTORE AND MAINTAIN A REASONABLY FULL USE OF DOMESTIC RESOURCES WHILE ACHIEVING AND PRESERVING A REASONABLE DEGREE OF PRICE STABILITY. AT THE SAME TIME WE WILL CONTINUE TO AVOID THE IMPOSITION OF TRADE OR PAYMENTS RESTRICTIONS FOR BALANCE OF PAYMENTS REASONS, AND LIMITED OFFICIAL USE
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CONTINUE TO SUPPORT THE EFFORT TO LIBERALIZETRADE. WE FEEL THAT THE EFFECTS OF SUCH POLICIES ON THE STRUCTURE OF OUR INTERNATIONAL TRANSACTIONS AND ON OUR EXCHANGE RATE SHOULD NOT BE SUCH AS TO OCCASION CONCERN EITHER FOR US OR FOR OTHER COUNTRIES. OBVIOUSLY, WE COULD NOT BE INDIFFERENT TO THE EFFECTS ON OUR BALANCE OF PAYMENTS AND OUR EXCHANGE RATE OF POLICIES PURSUED BY OTHER COUNTRIES WITHRESPECT TO GROWTH AND PRICE STABILITY AS WELL AS EXCHANGE RATES. FURTHERMORE, WE CONSIDER IT IMPERATIVE

THAT COUNTRIES AVOID TRADE AND PAYMENT RESTRICTIONS, SUBSIDIES, AND OTHER INEFFICIENT AND MUTUALLYSELF DEFEATING MEASURES.

8. MOREOVER, WE SHARE THE VIEW EXPRESSED IN THE LETTER BY SIR DEREKMITCHELL THAT THE CONCEPT OF OIL DEFICITS, EVEN WHEN DEFINED IN A SOPHISTICATEDMANNER,ISNOT A USEFUL LONGER-RUN APPROACH TO DISCUSSING THE CONSISTENCY OF BALANCE OF PAYMENTS OBJECTIVES AND POLICIESAMONG THE OECD COUNTRIES. EVEN IF THIS WERE A CONCEPTUALLY SOUND APPROACH, WE DOUBT THAT THE RELEVANT PROJECTIONS COULD

BE MADE WITH SUFFICIENT ACCURACY ON AN INDIVIDUAL COUNTRY BASIS TO MAKE SUCH AN APPROACH OPERATIONALLY FEASIBLE. (AT HIGHER LEVELS OF AGGREGATION, USEFUL PROJECTIONS OF OIL-RELATED CURRENT ACCOUNT IMBALANCES AND OPEC FINANCIAL ACCUMULATIONS ARE POSSIBLE, AND WE HAVE FOUND THE WORK UNDERTAKEN BY THE SECRETARIAT TO BE VERY HELPFUL.)

9. WHILE WE HAVE NO SPECIFIC OBJECTIVES FOR OUR EXCHANGE RATE OR FOR THE PATTERN OF OUR INTERNATIONAL TRANSACTIONS, IF OTHER WP-3 MEMBER COUNTRIES DO USE SPECIFIC BALANCE OF PAYMENTS TARGETS AS A GUIDELINE POLICY, THE WORKING PARTY OUGHT TO BE INFORMED OF SUCH OBJECTIVES AND OF THE REASONING WHICH UNDERLIES THEIR USE. WE WOULD HOPE THAT ANY SUCH TARGETS WOULD BE USED WITH CONSIDERABLE FLEXIBILITY AND SENSITIVITY TO SIGNALS PROVIDED BY THE MARKET, SO THAT AN EFFICIENT FLOW OF TRADE AND CAPITAL AMONG OUR COUNTRIES WOULD NOT BE IMPEDED. AN INTERNATIONAL DISCUSSION OF SUCH TARGETS SHOULD BE USEFUL IN HELPING TO AVOID THE USE OF INAPPROPRIATE POLICIES SUCH AS MIGHT RESULT FROM PURSUIT OF OBJECTIVES WHICH ARE LIMITED OFFICIAL USE
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INCOMPATIBLE. IF YOUR PAPER FOR THE NEXT WORKING PARTY MEETING COULD PROVIDE SUCH INFORMATION AND COULD OFFER AN ANALYSIS OF ALTERNATIVE APPROACHES TO THE EVALUATION OF THE APPROPRIATENESS OF MEMBERS' ECONOMIC POLICIES, I THINK IT WOULD BE A VERY USEFUL DOCUMENT.

SINCERELY YOURS,

JACK F. BENNETT
UNDER SECRETARY FOR
MONETARY AFFAIRS

END TEXT KISSINGER

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